

*Citation for published version:*

Pappas, V 2015, 'Lessons from Islamic finance for a Greek debt swap deal' *The Conversation*.  
<<https://theconversation.com/lessons-from-islamic-finance-for-a-greek-debt-swap-deal-37490>>

*Publication date:*  
2015

*Document Version*  
Early version, also known as pre-print

[Link to publication](#)

*Publisher Rights*  
CC BY-ND

**University of Bath**

## **Alternative formats**

If you require this document in an alternative format, please contact:  
[openaccess@bath.ac.uk](mailto:openaccess@bath.ac.uk)

### **General rights**

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

### **Take down policy**

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

## **Financing Greece: Lessons from Islamic Finance**

Up to last month's Greek elections the main question has been in what way would Syriza finance its program, which at times included the dilemmas in/out of the Eurozone and a debt "haircut" with/without the consent of the creditors. Shortly after Syriza came to power, the Greek finance minister Yanis Varoufakis announced the "magic strategy", which has been kept a secret all this time, and that would take Greece back to the prosperity track. The suggested proposal is a swap of the outstanding Greek debt for bonds linked to growth. Varoufakis' proposal, in recognizing that Greece's problem is one of insolvency not liquidity, aims to direct and relate the external financing to some well-defined business outcome.

A resemblance of products and practices of Islamic finance is apparent in his suggestion. The "no money for money" principle followed by Islamic banks entitles the investor to a profit share only when sharing the business risk. In this way the economic burden of a fixed interest rate, which is unlinked to the business outcome, is reduced. Moreover, the risk is not assumed by the bank; it is passed directly to the investors who have exchanged their contractually fixed interest rate for a profit share. In other words an Islamic bank can avoid profit distribution to its investors if the banks' business ventures have not been profitable. Islamic banks operating along these principles have demonstrated greater resilience to the recent financial crisis, higher profitability and capitalization compared to the debt-based conventional banks.

In the current situation, Greece may be thought as the bank; the EU taxpayers would be the investors, while the business venture is Greece's recovery. Shifting Greece's debt to Islamic bonds linked to growth would alleviate the pressure of meeting with the next payment due that the Greek government has to cope with; thus changing the orientation of its policies from the short-term to the medium/long-term. In practice, this could mean less austerity for the already heavily-burdened Greek employees, but more flexibility and determination to fight with bureaucracy, tax evasion, trade unions and corruption that are the reasons for Greece's insolvency.

Why would the rest of Europe want such a deal? In the past few weeks we have observed a confrontation stance between Greek officials and members of the Troika. What, however, may not have been accounted for in Varoufakis' proposal is that such members would need to be present on a more permanent basis to ensure that the Greek program stays on track (and reduce any moral hazard issues). Then essentially Greece agrees to tie itself to a constant monitoring by "technocrats" who may be able to work with the politicians towards a common goal.

Dr Vasileios Pappas, Lecturer in Finance, University of Bath